From the desk of
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Expanded Depreciation Expensing

The Tax Cuts and Jobs Act (TCJA) passed in late 2017 made some significant enhancements for business as it relates to asset acquisition, and the depreciation rules.

Expensing of those asset acquisitions has been liberally expanded nearly every business. In some cases these changes allow small business owners and the self-employed to write off the cost of machinery, equipment and other property immediately.

100 percent, first-year 'bonus' depreciation

The bonus depreciation percentage is now 100 percent for qualified property acquired and placed in service after September 27, 2017, and before January 1, 2023.

This means that businesses can often write off the full cost of most depreciable property in the first year they use it in their business.

Depreciable business assets with a recovery period of 20 years or less and certain other property qualify.

Machinery, equipment, computers, appliances and furniture generally qualify.

Special rules apply for longer production period property and certain aircraft.

In addition qualified film, television and live theatrical productions are among the types of property that may qualify for 100 percent bonus depreciation.

Businesses can immediately expense assets acquired

Businesses may elect to expense all or part of the cost of what is often referred to as Section 179 property and deduct it in the year placed the property in service.

The maximum deduction has been increased to $1,000,000, and the phase-out threshold has increased to $2,500,000.

These amounts adjusted annually for inflation apply to property placed in service in tax-year 2019.

Section 179 property includes business equipment and machinery, office equipment, livestock and, if elected, qualified real property.

Taxpayers can elect to include certain improvements made to nonresidential real property.

Depreciation limitations on luxury automobiles

The Tax Cuts and Jobs Act (TCJA) changed depreciation limits for passenger vehicles placed in service starting in tax-year 2018.

If the election to expense assets acquired under IRC 179 is not made, then the greatest allowable depreciation deduction is:

- $10,000 for the first year,
- $16,000 for the second year,
- $9,600 for the third year, and
- $5,760 for each later taxable year in the recovery period.

If 100 percent bonus depreciation is claimed, the greatest allowable depreciation deduction is:

- $18,000 for the first year,
- $16,000 for the second year,
- $9,600 for the third year, and
- $5,760 for each later taxable year in the recovery period.

These amounts apply to property placed in service starting in 2018.

Applicable recovery period for real property

The general recovery period for residential rental property is 27.5 years.

TCJA changed the alternative depreciation system recovery period for residential rental property from 40 years to 30 years.

Under the new law a real property trade or business electing out of the interest deduction limit must use the alternative depreciation system to depreciate any of its residential rental property.

These changes apply to tax-years starting in 2018.

Providing individuals, small businesses, corporations, partnerships, professionals, and other business entities with the necessary guidance and answers for a complex world.